

Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

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XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

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P R 241222Z JAN 74

FM AMEMBASSY ABIDJAN

TO SECSTATE WASHDC PRIORITY 6862

INFO AMEMBASSY BANGUI

AMEMBASSY BAMAKO

AMEMBASSY COTONOU PRIORITY

AMEMBASSY DAKAR PRIORITY

AMEMBASSY LOME PRIORITY

AMEMBASSY LIBREVILLE

AMEMBASSY NIAMEY

AMEMBASSY NDJAMENA

AMEMBASSY OUAGADOUGOU PRIORITY

/AMEMBASSY PARIS PRIORITY 3085

AMEMBASSY YAOUNDE

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E.O. 11652: N/A

TAGS: EFIN, ECON, ETRD, IV, FR

SUBJECT: MEETING OF UMOA FINANCE MINISTERS TO DISCUSS FRANC FLOAT

1. FINANCE MINISTERS OF UNION MONETAIRE OUEST-AFRICAINE (UMOA), (SENEGAL, IVORY COAST, UPPER VOLTA, TOGO, DAHOMEY AND NIGER) ARE MEETING TODAY IN ABIDJAN TO DISCUSS CONSEQUENCES OF FRENCH FRANC FLOAT. MEETING WAS CALLED JANUARY 22 BY SENEGALESE MINFIN BABACAR BA TO STUDY IMPLEMENTATION OF UMOA EXCHANGE CONTROLS IN VIEW OF FRANC FLOAT.

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2. AS ADDRESSEES AWARE, FRANCE GUARANTEES CONVERTIBILITY OF CFA, AND PARITY BETWEEN FRENCH FRANC AND CFA HAS NOT CHANGED SINCE 1950. THUS, CFA IS ALSO FLOATING AND WILL MOVE PARI PASSU WITH FRANCH FRANC.

3. MINISTERS WILL DISCUSS, INTER ALIA, EFFECTS OF DE FACTO DEVALUATION OF CFA ON FOREIGN TRADE ACCOUNT, EXTERNAL DEBT POSITION AND CAPITAL FLOWS. AS OF THIS WRITING, ATTENDANCE BY AND LEVEL OF GOF REPRESENTATIVE UNCERTAIN.

4. IN FACE OF FRENCH ACTION, UMOA MEMBERS HAVE SEVERAL OPTIONS:

A. DO NOTHING FOR TIME BEING AND AT END OF 6 MONTH FLOAT REQUEST (AS WAS DONE AFTER 1969 FRENCH FRANC DEVALUATION) THAT FRANCE REIMBURSE FRANC ZONE MEMBERS FOR "LOSSES" INCURRED AS RESULT OF DEVALUATION;

B. REQUEST THAT THE PARITY OF THE CFA RELATIVE TO THE FRENCH FRANC BE CHANGED, I.E. THAT THE CFA BE REVALUED RELATIVE TO THE FRENCH FRANC. ALTHOUGH TECHNICALLY POSSIBLE, MOST OBSERVERS VELIEVE THAT GOC FOR POLITICAL REASONS WOULD NOT ACQUIESCE TO SUCH PROPOSITION;

C. INSTITUTE EXCHANGE CONTROLS TO STEM CAPITAL FLIGHT. DURING PREVIOUS FRENCH BALANCE OF PAYMENTS CRISES (WHETHER OR NOT LEADING TO DEVALUATION) UMOA INSTITUTED EXCHANGE CONTROLS SIMILAR TO THOSE EMPLOYED BY GOF; NOT TO HAVE DONE SO WOULD HAVE PERMITTED FLIGHT FROM FRANC INTO OTHER CURRENCIES VIA OTHER FRANC ZONE BANKING INSTITUTIONS. THUS, IT IS PROBABLE THAT UMOA WILL DECIDE TO FOLLOW FRENCH LEAD REGARDING EXCHANGE CONTROLS DURING FLOAT PERIOD.

5. COMMENT: INITIAL EMBASSY VIEW IS THAT DEVALUATION OF CFA (WHICH SINCE DECEMBER 1 IS ON ORDER OF 15 PERCENT RELATIVE TO THE DOLLAR, AND SEVERAL POINTS MORE RELATIVE TO DEUTCHMARK) IS NOT IN THE INTEREST OF IVORY COAST (AND OTHER UMOA MEMBERS) BECAUSE:

A. EXPORTS OF INDUSTRIAL GOODS, WHICH IN CLASSICAL SENSE ARE EXPECTED TO BE STIMULATED BY DEVALUATION, REPRESENT ONLY 7 PERCENT OF TOTAL IVORIAN EXPORTS;

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B. DEMAND AND SUPPLY FOR MAJOR IVORIAN EXPORTS (COFFEE AND COCOA) ARE INELASTIC. ALTHOUGH DEMAND FOR PALM OIL--ANOTHER IMPORTANT IVORIAN EXPORT--IS GENERALLY ELASTIC, INDUSTRY PRESENTLY OPERATING AT FULL CAPACITY AND, THUS, SUPPLY IS INELASTIC. WOOD EXPORTS WOULD HAVE CONTINUED TO INCREASE RAPIDLY WITHOUT DEVALUATION.

C. IVORIAN IMPORT BILL WOULD INCREASE SUBSTANTIALY. THIS INCREASE

COUPLED WITH BURDEN OF HIGHER PRICES FOR CRUDE, ITS DERIVATIVES, AND MANUFACTURED GOODS (RESULTING FROM IMPACT ON INDUSTRIALIZED COUNTRIES OF CRUDE PRICE HIKES) WOULD PUT SEVERE STRAIN ON IVORIAN BALANCE OF PAYMENTS. (FRANCE, HOWEVER, TO GAIN SINCE IVORIAN IMPORTS OF CAPITAL EQUIPMENT GOODS FROM SUPPLIERS OTHER THAN FRANCE WOULD LIKELY DECLINE WITH COMMENSURATE INCREASE IN FRENCH MARKET SHARE FOR THESE PRODUCTS.)

D. FOREIGN DEBT DENOMINATED IN CURRENCIES OTHER THAN FRENCH FRANC WILL--TO THE EXTENT OF THE DEVALUATION--REPRESENT AN INCREASED BURDEN ON IVORIAN BUDGET; APPROXIMATELY 40 PERCENT OF IVORIAN DEBT FALLS UNDER THIS CATEGORY.

6. FOR PARIS:

A. PLEASE REPEAT CABLES ANALYZING BACKGROUND OF FRENCH DECISION AND INCLUDE EMBASSY AS ADDRESSEE ON CABLES REPORTING SUBSEQUENT IMPORTANT DEVELOPMENTS.

B. HAS EMBASSY ANY "GUESSTIMATE" WHAT MIGHT BE GOF "TARGET" FOR FRENCH FRANC EXCHANGE RATE AFTER SIX-MONTH FLOAT?

C. WHAT WOULD FRENCH REACTION LIKELY BE (AND REASONS THEREFOR) IF UMOA MEMBERS WERE TO REQUEST CHANGE IN CFA/FRENCH FRANC PARITY?
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